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SUBJECT: FSM GOVERNORS SLAM COMPACT IMPLEMENTATION

SENSITIVE BUT UNCLASSIFIED - ENTIRE TEXT

¶1. Summary: The Governors of Yap and Pohnpei, which are the two most prosperous and best managed of the four states in the Federated States of Micronesia (FSM), complained urgently to Ambassador that unsatisfactory administration of the Amended Compact threatens to cripple their government operations. They blamed cumbersome and unresponsive bureaucratic structures at the FSM national level for obstructing the flow of funds that are vital at the grassroots. Department of the Interior (DOI) oversight visits from Honolulu are also a source of tension. The Governors advocated for a DOI office attached to the U.S. Embassy. Ambassador supports this and other recommendations in Para 12. End Summary.

#### COMPACT SECTOR CUTOFFS THREATEN ESSENTIAL SERVICES

¶2. Governor Sebastian Anefai of Yap State charged that poor administration of the Amended Compact was "hurting the wrong victim." Yap is a small but frugal and responsibly governed state, his Director of Health reminded. Governor Anefai is a respected former FSM Foreign Secretary. As a key negotiator of the Amended Compact, he has a solid grasp of joint statutory requirements. Ambassador Hughes conferred with Anefai and others during a consular outreach trip to Yap July 9-10.

¶3. Anefai inferred from budget consultations in his state in June with Department of the Interior (DOI) representatives, that Compact funds would be withheld in FY-2009 in the environment, capacity building and private development sectors owing to the absence of state-specific plans for their use. In all the FSM states, funds in these sectors continue to support recurring government operations. DOI's letter to President Mori of July 9 affirms an intention to withhold money in these sectors "unless there are explicit and measurable ties back to the purpose of Compact funding and specific outcomes proffered in the FSM's National Strategic Plan."

¶4. Over 23 percent of the FY-2009 Yap budget depends upon Compact funds in these three sectors, totaling USD 2,076,032. Anefai informed President Mori that a suspension of assistance in these sectors would create a financial crisis that could result in bankruptcy and the breakdown of essential public services. "The very viability of the Yap State Government may hang in the balance," he said.

#### GOVERNORS BLAME DYSFUNCTIONAL FSM COMPACT MACHINERY

¶5. Governor Anefai knowledgeably asserted that the FSM National Government (FSMNG) was responsible for preparing a nationwide, state-specific plan for the use of funds in the three sectors. He blamed the FSMNG for failure to utilize DOI grant awards totaling USD 75,000 to help develop the required programmatic blueprints.

¶6. Pohnpei's dynamic Governor John Ehsa, who met with Ambassador on July 14, accused the Mori Administration of having created a dysfunctional reorganization. Ehsa was a former FSM Finance Secretary and administrative officer with the

FSM Compact negotiating team. He charged that Mori's creation of an unwieldy Office of Statistics, Budget, Overseas Aid, and Compact Assistance (SBOC) had impeded internal management of Compact transactions. Funds failed to flow to the states on time, creating constant crises. SBOC did not communicate, he said. In Yap, Health Director James Gilmar complained, "We get worried and desperate when (Compact) cash doesn't flow. We have no control over the money. It would be better if we could manage the money ourselves."

¶7. Anefai and his Cabinet expressed outrage that SBOC had transferred Yap's entitlement of USD 700,000 worth of 2004 carryover funds in the capacity building sector to help cover compensation to employees who lost their jobs in Chuuk State's mandated reduction-in-force. Under instructions from SBOC, Yap had submitted detailed plans for 42 projects to which the Yap-designated carryover funds might be applied. Instead last March, SBOC and DOI transferred Yap's considerable share to Chuuk without consultation, the Governor alleged. Yap's Speaker of the Legislature Charles Chieng commented separately, "We are all concerned about Chuuk because the failure of that state affects us all. But why did they get our allocation?" Governor Anefai described a bumbling inability of SBOC staff to find the right forms or to clarify procedures. "We are confused," he said repeatedly, noting that the myriad of technical requirements of Compact Two were further compounded by President Mori's inopportune reorganization of the central Compact bureaucracy. "It boggles the mind," he said.

¶8. Anefai explained the careful work that Yap State had invested in preparing a prioritized proposal for 13 infrastructure projects, which DOI had strongly encouraged. Yap submitted its list promptly to the revamped Project Management

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Unit (PMU), which President Mori created and attached to his office. The PMU never reacted to Yap's list, according to Anefai. He learned belatedly and only informally that the PMU had authorized three of the 13 projects, which were not necessarily high priorities. Ehsa called the PMU a failure. He said it would be preferable for the U.S. Army Corps of Engineers to consult directly with the FSM states and oversee infrastructure. Ehsa asked that DOI respond to a specific Pohnpei request to engage the Army Corps of Engineers to oversee reinvigoration of Kolonia's hydroelectric dam. Ambassador Hughes has made that request to Honolulu's DOI Office, which is responsible for Compact support in the FSM, and will follow up.

#### CALLS FOR CLOSER PARTNERSHIP

¶9. In both states, interlocutors complained that periodic DOI oversight visits from a distant base in Honolulu, however well intentioned, were intrusive, and they generated tension. "The Compact does not require micromanagement of state budgets," Ehsa asserted. While Micronesians needed help, he implied they were sovereign citizens and no longer children. The timing and perceived intrusiveness of the Honolulu visits had inspired passive resistance.

¶10. Ambassador Hughes responded that DOI was charged with serious responsibility to ensure effective application of U.S. taxpayers' money, which was also intended to help FSM citizens move forward. Together, we needed to analyze the root causes of why the FSM had failed to absorb and effectively utilize valuable Compact money, particularly at the local level, where serious deprivation and passivity existed, she said.

¶11. Micronesian interlocutors insisted that in order to form more effective partnership with the U.S., some DOI representatives needed to be based in Pohnpei, working under the U.S. Embassy umbrella and available to collaborate with the Micronesians on a daily basis. Also, they said DOI grant managers should not be charged with Compact sector specialties, but rather be assigned to cover Compact issues across-the-board in particular states, building programs and day to day positive relationships. Ambassador concurs with this recommendation.

¶12. A summary of these and other notions that emerged in informal talks with Yap and Pohnpei officials follows:

-- Send all four FSM Governors to the August JEMCO meeting to engage in frank discussions;

-- Invite FSM Speaker of the Congress Isaac Figir (Yap) to JEMCO to articulate an overarching FSM point of view about why Compact implementation is difficult for the Micronesians;

-- Encourage DOI to deal more directly at the state level and reduce the FSMNG centralized Compact administrative bureaucracy;

-- Engage the U.S. Army Corps of Engineers to oversee infrastructure projects;

-- Establish a DOI office attached to the U.S. Embassy in Pohnpei, including engineering representatives from a private sector firm;

-- Reevaluate the relevance of the FSM's financial allocation formula for each of the four states;

-- Use the Compact to reward states that manage well;

-- Recognize that the transition from the largesse of Compact One to the stringent accountability of Compact Two was abrupt, confusing and beyond the capacity of fragile Micronesian governments to digest;

-- Brainstorm on more flexible applications of the Amended Compact to today's shifting and most urgent needs, including fuel and alternative energy.

HUGHES